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# Yves LECLERCQ, *La Banque supérieure: La Banque de France de 1800 à 1914*, Paris, Éditions Classique Garnier, Bibliothèque de l'Économiste, 1, 2010, 349 p.

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# Yves LECLERCQ, *La Banque supérieure: La Banque de France de 1800 à 1914*, Paris, Éditions Classique Garnier, Bibliothèque de l'Économiste, 1, 2010, 349 p.

Eugene N. White

1 As we ponder the 2008 crisis, the arrival of a new history of the *Banque de France* is a timely event, helping us to better understand how earlier crises were managed. Although we have recently been treated to magisterial studies of the Federal Reserve by Allan H. Meltzer[1] and the Bank of England by Forrest Capie[2], we lack a truly modern history of the *Banque de France*. As the peer of the Bank of England in the nineteenth century, it is a notable omission, so that Yves Leclercq's new tome is more than welcome, as it spans the vital period when central bank policy was forged in Europe.

2 Leclercq's emphasizes the differences in structure and operation between the Banque de France and the Bank of England. Most of our ideas of what a successful central bank ought to do are derived from our stylized facts about the Bank of England's behavior in the late nineteenth century; but if the *Banque of France*'s history is compared, the lessons are different and perhaps more relevant for today. The book does not assume a specialized knowledge of central banking or banking and is accessible to the historian and general reader.

3 What nicely emerges from Leclercq's narrative is the long struggle to define the *Banque de France*. From the beginning, its leaders drawn from the Parisian *haute banque* had a fairly clear sense that it should be *la Banque supérieure* not a banque ordinaire, by which they meant that its activities should complement their own and delivering unique services. Given its huge capitalization and its privilege of note issue in Paris, the *Banque* had the resources to provide short-term financing to the government and credit and high denomination banknotes for transactions to the elite private banks.

4 The *Banque supérieure*'s "exorbitant privilege", its monopoly not issue, enabled it to produce a handsome dividend, but earned it many enemies. Leclercq provides us with a vivid description of the earliest years of the *Banque* when it had a number of competitors that issued banknotes. These institutions, the *Caisse de Comptes Courants*, the *Caisse d'Escompte du Commerce*, the *Comptoir Commercial*, the *Banque Territoriale* – and more than a few in the provinces – provided banknotes and discounts to smaller businesses. Some Saint-Simoniens and some in the government wished the *Banque* a different mission, providing greater credit and a more active role in economic development. Although the *Banque* absorbed its note-issuing Parisian rivals, it was threatened by the *banques départementales*, which were given local monopoly privileges, first in Rouen, Nantes and Bordeaux and later in Lyon, Marseille, Toulouse, Orléans, Le Havre and Lille.

5 The market was not so easily segmented and these banques were significantly more leveraged than the *Banque*. In the years 1841-1847, while the *Banque* had an average of reserve to liability ratio 78%, the departmental banks ranged from 31% in Rouen to 54% in Bordeaux. The effort to maintain an untenable system of multiple banks of issue and a regionally limited *banque supérieure* collapsed in the Revolution of 1848. To avoid a run on the banks, the banknotes of the *Banque* was given a nationwide *cours forcé* and the departmental banks were given local *cours forcé*. When a reflux of notes into Paris and requests for assistance from the departmental banques grew, the *Banque* feared for its hoard of gold. The solution was the absorption of the weaker departmental institutions by the *Banque* that exchanged their shares at par, bribing regional shareholders with a premium. The *Banqu*e's capital shot up and it acquired a branch network and a national monopoly.

6 The debate over the monopoly of the *Banque* intensified now. Liberal economists, such as J.-G. Courcelle-Seneuil and J.-E. Horn wanted the abolition of privilege and the introduction of competition with minimum of regulation. They believed that the market could guarantee the safety of the banking system and the stability of the price level as it would discipline any over-issue of notes. They contrasted this market discipline to the dangers of monetary expansion under a monopoly with a *cours forcé*. On the other side of the debate were opponents like Louis Wolowski who put security ahead of liberty. Although competition in banking could be allowed, it did not extend to note issue, which they saw as a natural extension of the function of the state to ensure stability, providing what modern economists would name a public good. The bitterness of the debate reflects to no small degree the intensely French debate over the role of the state, with one side treating the *Banque* as a violation of the French Revolution's abolition of monopolies and the other side regarding the Banque as providing "service public de premier ordre". Tied to the latter view was the growing conviction that the Banque should serve as a lender of last resort. In a parlementary debate in 1840, Adolphe Thiers echoed Henry Thornton, arguing for maintaining the *Banque*'s special position. He pointed out that in six previous crises the *Banque* had allowed its reserves to drop while its discounts expanded, providing liquidity to the market. Thiers lauded the institution: "*La Banque de France s'est conduite comme un gouvernment sage pouvait le faire... elle a neutralisé les crises*".

7 Leclercq captures the symbiotic relationship of the *Banque* and the government. By providing the *Banque* with considerable autonomy, the government enhanced the credibility of both the *Banque* and the Treasury. Yet the *Banque* was not immune from pressure. Given that the *Banque* had a charter of fixed length, renewals in 1806, 1840, 1857, 1897 and 1918 gave the government leverage over the *Banque* that it exploited. A

new charter was conditional usually on increasing the permanent credits to the Treasury and increasing its services to the public by opening more branches and by easing the terms of credit. However, the bank was able to reject the requests that would have altered its mandate, notably using interest rates as a policy tool.

8 While the political and economic crisis of 1847-1848 gave the *Banque* its national dominance, the 18th Brumaire put the Banque in a difficult position. It now faced a government eager to promote development and back new institutions and new men ready to challenge the *Banque supérieure* — notably the frères Pereire and *Crédit Mobilier*. This pressure appears to have subsided substantially after 1870 and a different political economy under the Third Republic. Although yielding to a considerable degree in some matters, its essential autonomy in decision-making was not compromised. Put into modern terms, the government recognized that price stability and the maintenance of the payment system depended on the *Banque*'s credibility, which in turn was contingent upon the government acknowledging its independence. Leclercq views the absence of any regulation of ratio of coin to banknotes or liabilities as an acknowledgment of the necessity of independence. However, he points out that « *La Banque est considerée comme l'équivalent d'une branche de l'administration, avec l'avantage de rester en dehors* » (p. 324). This position is little different from that of the Federal Reserve today, which is considered to be independent within the government but not from government.

9 Laclercq ties the stability of the bank's note issue and the confidence it engendered to the requirement that it only discount on three name paper (*effets à trois signatures*) – a statement reminiscent of the Anglo-American real bills doctrine. While this certainly helped to ensure that the *Banque* had few losses, as the asset-backing of its notes was sound, he mentions another factor that I think that contemporaries would have emphasized as well: high minimum denomination of banknotes. The purpose of this restriction, which seems bizarre today, was to restrict the use of notes to the wealthy and big business because it was believed that small denomination note issues were prone to counterfeiting and over-issue – a point that Adam Smith made forcefully in the Wealth of Nations, Both British and American bank regulations tended to follow similar high denomination rules. The *Banque* fought reductions in the denominations of its notes, fearful that in a war or crisis, small noteholders would be quick to panic and cause the *Banque* to bleed reserves. Hence high denominations thwarted panics. It viewed its notes as *créances commerciales* rather than a means of payment and hence not appropriate for the general public.

10 While convertibility of banknotes into coin was the sacred duty of the bank, it was twice abrogated in extreme circumstances. Its notes were declared legal tender with *cours forcé*, the first in the upheaval of the Revolution of 1848 and the second, after the defeat in the Franco-Prussian war, with discretionary convertibility in the latter case lasting until 1877. Although these may be viewed as exceptions, they have a deeper significance. The disaster of the *assignats* of the French Revolution was certainly not forgotten. Founded in 1776, the *Banque*'s ancien régime predecessor, the *Caisse d'Escompte*, had issued banknotes convertible into coin held in reserve; but when the revolutionaries declared a *cours forcé*, the banknotes turned into pure fiat money with horrific inflationary consequences. Yet, when *cours forcé* was declare for the notes of the *Banque*, the public did not panic and treat them as soon-to-be fiat money, driving up velocity and prices. The *Banque* and by extension the government had the credibility that there would be

ultimately a return to convertibility, a vast achievement of institution building during the nineteenth century.

11 Leclercq nicely debunks the myth of France as a country of people who only trusted their 20 franc napoleons. Part of the problem was the refusal of the *Banque* to countenance the issue of smaller denomination notes – holding the line at 50 franc notes – a sum only useful for substantial transactions. While the balance of payments constrained the total coinage and the *Banque* the denomination of note issues, he shows that transfers ( *virements*) registered by the *Banque* were rising quickly. In the 1830s, 54% of payments were made by banknotes and 9% by coin, but by the end of the century transfers had reached 70%. Leclercq points out that the traditional estimate that 36% percent of the money stock was in gold or silver on the eve of the First World War is in error. This figure omits notes of all kinds from regional banks and the Treasury that served as a means of payment. Corrected, the money stock was composed of 77% of deposits and short-term notes, 20% banknotes, and 3% gold in 1910.

12 Certainly, one of the most extraordinary features of the nineteenth century was the cooperation between the Banque de France and the Bank of England. Beginning in 1839, the Bank obtained, through intermediaries, a loan of specie from the Banque; the favor was returned during the crisis of 1847. Following the Baring Crisis of 1890, this assistance between Paris and London became more frequent. Aid was granted to Berlin in 1898 and the United States Treasury in 1907, but not to Italy in 1887 and Russia in 1893.

13 My major concern for this fine volume, based on an extensive reading of primary materials, is that the *Banque* is viewed a little too much in isolation. Comparisons are made with the Bank of England but many important central banks pre-dated and co-existed – notably the First and Second Banks of the United States and the Riksbank of Sweden. Comparison with these central banking experiences might temper some of the conclusions. Notably, Leclercq depicts the monopoly of note issue by the *Banque* as a public good brought about by the cooperation between the *haute banque* and the government. Finding against the liberal economists of the nineteenth century, he concludes that multiple banks of issue could not inspire the same confidence. However, the U.S. experience in the first half of the nineteenth century with multiple banks of issue and the Canadian experience for whole of the era cast some doubt on this conclusion.

14 The comparison that Leclercq offers between the *Banque de Franc*e and the Bank of England will strike those versed in Anglo-American central banking history as novel. The Bank treated its banknotes as representing gold in its vaults and was obliged by a specific cover ratio to defend its reserves, while the *Banque* treated its banknotes as an instrument of credit and was free of required reserve ratio. He considers the absence of this regulation as giving the *Banque* greater operational freedom to innovate. While the *Banque* certainly evolved considerably over the century, it is possible that the *Banque* was subject to a similar but de facto constraint, given that the public had to be concerned about its ability to maintain convertibility.

15 The monopoly of the *Banque de Franc*e and the limits on entry for chartered banks for most of the nineteenth century raise another issue. The French reticence to grant bank charters in the nineteenth century set the country apart. The British allowed new joint stock banks by the dozen and the U.S. by the hundreds. In the U.S., this democratization of finance was closely tied to political democratization (attaining universal male sufferage) that crested when Andrew Jackson became President in 1828. This democratization was important as local banks became tied to local firms and have been

shown to have encouraged technological innovation. Although financial institutions and markets have considerable fungibility, France's institutional structure should have had some effective on competition in banking and the provision of credit. While one might laud the *Banque* for its success in maintaining a sound financial system, one might ask at what cost. The conservatism of this system may have limited credit and, by extension, growth.

16 Given the events of 2008-2009, perhaps the most interesting revelations of the book are the extraordinary credits granted to rescue financial institutions and the Bourse. What is striking is how successful the *Banque* was from a modern point of view. Typically, an institution in need of rescue was granted credit by the *Banque* but only after a syndicate of banks had been corralled to guarantee any losses. This approach was applied numerous times, including 1882 for the Bourse de Paris and 1889 for the *Comptoir d'Escompte*. Struggles within the *Conseil Général* reveal the concerns over assistance to potentially insolvent institutions and where to draw the line between institutions whose demise would threaten the liquidity of the market and those that would not. This approach to a financial crisis has a much more modern ring to it than the Bank of England's anonymous lending to the market in crises, and it may be a reason why further study of the Bank of France in the nineteenth century is of great relevance for today.

## NOTES

**1.** Allan H. MELTZER, *A History of the Federal Reserve,* Chicago, University Press of Chicago, 2008-2009.

**2.** Forrest CAPIE, *The Bank of England 1950s to 1979,* Cambridge, University Press of Chicago, 2010.

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